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Supreme Court, U.S.
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No. 06-

IN THE
Supreme Court of the United States

LORILLARD TOBACCO COMPANY,
Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether undisputed evidence that a retailer sold counterfeit goods establishes "irreparable harm" that supports the entry of a preliminary injunction in a trademark infringement case. The Tenth Circuit, in conflict with other circuits, held that it does not.

2. Whether a court, when balancing the hardships for purposes of a preliminary injunction motion in a counterfeiting case, may consider: (i) harm to the retailer that results from incurring a known risk of infringement; (ii) monetary harm to the retailer from lost sales if the injunction is granted; (iii) the retailer's difficulty in distinguishing counterfeit goods from genuine goods; and (iv) the size of the retailer's business. The Tenth Circuit, in conflict with other circuits, held that the court may deny a motion for a preliminary injunction on the basis of these factors.

PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT

The parties to the proceedings in the Ninth Circuit were Petitioner Lorillard Tobacco Company and Respondent Isaac G. Engida d.b.a. I and G Liquors. No other party appeared in any proceeding below. Pursuant to Supreme Court Rule 29.6, the following names all parent companies and subsidiaries (except wholly owned subsidiaries) of the petitioner:

Lorillard Tobacco Company is wholly owned by Lorillard, Inc., which is wholly owned by Loews Corporation. There is no other publicly held corporation that owns 10% or more of Petitioner.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner respectfully petitions for a writ of certiorari to review a judgment of the United States Court of Appeals for the Tenth Circuit. The Tenth Circuit affirmed the denial of a preliminary injunction in a counterfeiting case under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, despite undisputed evidence that Respondent, a retailer, sold counterfeit goods. The court of appeals' decision conflicts with decisions of the Sixth and Eleventh Circuits. The reasons the Tenth Circuit gave for its decision are unsatisfactory and create further conflicts with other courts of appeals.

First, the Tenth Circuit, applying circuit precedent, held that a trademark owner's loss of exclusive use of its mark does not necessarily satisfy the "irreparable harm" factor necessary for a preliminary injunction. This holding conflicts with decisions of several other courts of appeals.

Second, the Tenth Circuit's decision conflicts with decisions of other circuits holding that harm the defendant brings upon himself, particularly from illegal activity, should not be weighed in the balance of harms.

Third, the Tenth Circuit held that potential monetary harm to Respondent in the form of lost sales from a preliminary injunction outweighed the harm to Petitioner from the sale of more counterfeit products in the absence of an injunction. The court of appeals' ruling conflicts with decisions of other courts of appeals that weigh only the defendant's *irreparable* harms, and thus exclude consideration of monetary harms.

Fourth, the Tenth Circuit held that it was appropriate for the district court to deny a preliminary injunction against further sales of counterfeit goods if: (i) the retailer is a small company, (ii) the retailer allegedly sold counterfeit goods on only one occasion,

(iii) the retailer did not intend to sell counterfeit goods, or (iv) the counterfeit goods are difficult to distinguish from genuine goods. These rulings conflict with decisions of other courts of appeals, which reject each of these arguments.

OPINIONS BELOW

The opinion of the court of appeals, App., *infra*, 1a-6a, and the order of the district court, App., *infra*, 7a, are unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 8, 2007. App., *infra*, 1a. A petition for rehearing was denied on January 25, 2007. App., *infra*, 8a. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The relevant provisions of the Lanham Act are reproduced in the Appendix, App., *infra*, 9a-19a.

STATEMENT OF THE CASE

1. **The Counterfeiting Problem.** Counterfeit goods display a false trademark that is identical to, or substantially indistinguishable from, a genuine trademark. *See* Lanham Act § 45, 15 U.S.C. § 1127 (defining a "counterfeit" as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark"). Counterfeit goods typically imitate a well-known product, so that customers are deceived into thinking they are purchasing genuine goods. "Thus, counterfeiting is 'hard core' or 'first degree' trademark infringement.'" 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:10, at 25-24 (4th ed. 2007).

Counterfeiting is a serious economic problem. U.S. businesses lose an estimated $200 billion to $250 billion each year as a result of counterfeiting.[1] Seizures of goods that violate intellectual property rights have increased substantially at U.S. ports in recent years. In 2006, there were 14,675 seizures, representing an 83 percent increase over 2005 levels.[2] The U.S. Chamber of Commerce estimates that 750,000 U.S. jobs have been lost as a result of counterfeit goods, which frequently are manufactured in other countries using exploitative labor practices.[3] On a worldwide basis, the World Customs Organization estimates that counterfeiting accounts for five to seven percent of global merchandise, and resulted in lost sales of up to $514 billion in 2004.[4]

In addition to causing economic harm, counterfeit goods present serious threats to the safety and even the lives of consumers. Counterfeit brake parts have been

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[1] U.S. News & World Report, July 14, 2003, at 46-47 (reporting FBI estimate of $200-$250 billion each year); U.S. Chamber of Commerce, *The Cost of Counterfeiting and Piracy*, at 3, *available at* http://www.thetruecosts.org/portal/truecosts/resources/default (estimating costs of $200-250 billion per year); 142 Cong. Rec. H5776, H5778 (June 4, 1996) (remarks of Rep. Moorehead) (1996 estimate of $200 billion per year).

[2] Department of Homeland Security, U.S. Customs and Border Protection, Seizure Statistics for Intellectual Property Rights, *available at* http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/seizure/seizure_stats.xml.

[3] *See The Cost of Counterfeiting and Piracy*, *supra* n.1 at 7; Edward J. Kelly, Blood Money: The Steep Human Cost of the Counterfeit Culture, International Anti-Counterfeiting Coalitions Annual Fall Conference, Oct. 6, 2005.

[4] *Business Week*, Feb. 7, 2005, at 56. *See also* U.S. News & World Report, July 14, 2003, at 46-47 (International Chamber of Commerce estimates that pirated goods accounted for up to 8 percent of world trade, or $375 billion, in 2003).

found to cause automobile accidents.[5] Counterfeit airplane parts "have found their way into the inventory of every commercial airline in the country,"[6] and have been implicated in fatal airline crashes.[7] In 1995, the Food and Drug Administration issued a warning about sales of counterfeit infant formula in 16 States.[8] The World Health Organization has estimated that 8 percent of medicines worldwide are counterfeit; in poorer countries, an estimated 25 percent of all medicines are counterfeit.[9] It has been reported that "[h]undreds if not thousands of people have died" from counterfeit medicines.[10]

Counterfeiting has also been linked to terrorist activity. The U.S. General Accounting Office has reported that "terrorists earn funds through highly profitable crimes involving commodities such as contraband

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[5] Jed S. Rakoff & Ira B. Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 Am. Crim. L. Rev. 145 (1982).

[6] *Business Week*, June 10, 1996, at 84.

[7] *Id.* (reporting that, according to FAA records, "from 1973 to 1993 bogus parts played a role in at least 166 U.S.-based aircraft accidents or less serious mishaps."); C. Gutierrez, et al., *Countering Counterfeits*, Wall St. J., June 20, 2006 (reporting that crash of a Concorde supersonic airplane at de Gaulle Airport in Paris may have been due to a counterfeit part that fell off another airplane).

[8] 42 Cong. Rec. H5776, H5779 (June 4, 1996) (remarks of Rep. Goodlatte).

[9] U.S. News & World Report, July 14, 2003, at 46-47.

[10] Newsweek, Nov. 5, 1990, at 36 (quoting Susan Foster, a health economist at the London School of Hygiene and Tropical Medicine). *See also* H. Von Tesoriero, *Fake Drug Sites Keep a Step Ahead*, Wall St. J., Aug. 10, 2004 (reporting that head of WorldExpressRx.com pleaded guilty to criminal charges resulting from sales of counterfeit brand name drugs).

cigarettes, counterfeit goods, and illicit drugs."[11] Congressional hearings have produced evidence that terrorist organizations such as Hezbollah have raised millions of dollars through counterfeit goods, including counterfeit cigarettes.[12]

2. Congress's Response to the Counterfeiting Problem. Congress has responded to the serious problem of counterfeiting with special legislation. The Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 1837 (1984), makes intentional trafficking in counterfeit goods a federal crime, *see* 18 U.S.C. § 2320. Congress recognized that government enforcement efforts alone have proven insufficient to stem the tide of counterfeiting, and thus the 1984 legislation granted federal judges authority to issue *ex parte* seizure orders in response to applications from trademark owners.[13]

In 1996, in response to continued increases in counterfeiting despite the 1984 legislation, Congress enacted the Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996). The 1996 Act increases the penalties for counterfeiting and adopts additional procedures to combat it. Section 6 of the 1996 Act authorizes seizures of counterfeit goods

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[11] U.S. General Accounting Office, Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms (Nov. 2003), at 3.

[12] Hearing before the House Committee on International Relations, Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?, 108th Cong., 1st Sess. 7 (2003).

[13] *See generally* J. Joseph Bainton, *Seizure Orders: An Innovative Judicial Response to the Realities of Trademark Counterfeiting*, 73 Trademark Rep. 459, 462-63 (1983) (discussing seizure orders).

pursuant to a court order by any federal, state, or local law enforcement officer. *Id.*, 110 Stat. at 1388; 15 U.S.C. § 1116(d)(9). In addition, the 1996 Act adopted statutory damages provisions that authorize awards of $500 to $100,000 per counterfeit mark per type of good. 110 Stat. at 1388; 15 U.S.C. § 1117(c). For willful violations, the Act authorizes damages of up to $1 million. *Id.*

Most recently, in 2006, Congress enacted the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, 120 Stat. 285 (2006). The 2006 Act expands criminal prohibitions on trafficking in counterfeit goods to include trafficking in counterfeit labels or other fake packaging. The Act also requires courts to order the destruction of counterfeit products seized as part of a counterfeiting investigation, and to order counterfeiters to forfeit profits and equipment used in the counterfeiting operation and to pay restitution to the legitimate owner of an affected mark.

3. This Case. Petitioner is a leading cigarette manufacturer in the United States. Petitioner has registered five trademarks that appear on each package of Newport cigarettes, its best selling brand.[14] On January 31, 2006, Petitioner's employees purchased two packages of counterfeit Newport brand cigarettes from Respondent, a retailer in Denver, Colorado.

Petitioner filed a complaint in federal district court alleging that Respondent had violated the anti-counterfeiting provisions of Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125. The district court granted Petitioner's request for an *ex parte* seizure

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[14] Petitioner's trademarks are registered with the Patent and Trademark Office at Registration Nos. 1,920,066 (LORILLARD); 1,108,876 (NEWPORT); 2,600,870 (NEWPORT (stylized)); 1,178,413 (Spinnaker Design); and 1,191,816 (NEWPORT and Design).

order pursuant to Section 34 of the Lanham Act, 15 U.S.C. § 1116(d).

U.S. Marshals sought to execute the seizure order at Respondent's business during regular business hours. They found the doors locked, even though a lighted "open" sign was displayed and the officers could see that lights were on and a television was playing inside the store. After waiting for some time, the officers departed for the day. When they returned the next day, they found no counterfeit (or genuine) Newport cigarettes, and only 20 packages of cigarettes of any kind. The officers did, however, discover business records indicating the Respondent purchased Newport and other cigarettes from an unknown source outside of ordinary distribution channels. App., *infra*, 2a.

The district court denied Petitioner's motion for a preliminary injunction prohibiting Respondent from selling any additional counterfeit cigarettes. The district court did not issue a written opinion, but indicated in comments from the bench that it denied the motion because Respondent is a small business ("He's a . . . small business"), because Petitioner found only two packages of counterfeit cigarettes ("I need something more substantial than two packages of cigarettes"), and because the court inferred that Respondent did not intend to sell counterfeit goods ("The most reasonable inference that I can make . . . is that he happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes."). *Id.* at 4a-5a.

A panel of the U.S. Court of Appeals for the Tenth Circuit affirmed the denial of a preliminary injunction. The court of appeals stated that a trademark owner seeking a preliminary injunction must establish, among other factors, that it will suffer irreparable harm. *Id.* at 3a. The court stated that "[i]n defining the contours of irreparable harm," "the injury must be certain and great"

and not "merely serious or substantial." App., *infra*, 5a, quoting *Dominion Video Satellite, Inc.* v. *Echostar Satellite Corp.*, 356 F.3d 1256, 1262 (10th Cir. 2004) (internal marks omitted). Although Respondent was shown to have sold packages of counterfeit Newport cigarettes, the court of appeals held that this fact does "not necessarily" establish "certain and great harm." *Id.* The court held that the lack "of additional counterfeit Newport® cigarettes" found during the officers' execution of the seizure order undermined Petitioner's claim of future injury. App., *infra*, 5a.

The court of appeals rejected Petitioner's argument "that a prima facie case of trademark infringement establishes irreparable harm, per se." *Id.* Instead, the court held that the potential harm to Respondent if an injunction were granted outweighed the harm that Lorillard would suffer in the absence of an injunction. In particular, the court stated that because "the counterfeit packages are so similar to genuine packages[,] an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending." *Id.* at 6a (emphasis in original). The court thus concluded that Respondent's lost sales of Newport cigarettes while the case is pending outweighed the potential harm to Petitioner from additional sales of counterfeit products that infringe its trademarks, and the quality of which Petitioner cannot control. In addition, the court of appeals rejected Petitioner's argument that Respondent would not be harmed by an injunction prohibiting activity already deemed illegal under the Lanham Act – further sales of counterfeit goods. *Id.*

The court of appeals noted Respondent's contention that this Court's decision in *eBay, Inc.* v. *MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006), "disapproved the use of categorical rules in connection with injunctive relief in intellectual property actions." App., *infra*, 5a. The court of appeals elected not to

address that argument, relying instead on its analysis of the balance of hardships and its determination that Petitioner failed to establish "certain and great harm" from the denial of an injunction.

The court of appeals further held that "the district court did not clearly err in taking account of [Respondent's] status as a small business," and that this factor indicates "that an injunction would weigh more heavily on [Respondent] than the lack of one would affect [Petitioner]." App., *infra*, 6a.

REASONS FOR GRANTING THE WRIT

The court of appeals has decided important questions of trademark law in a way that conflicts with decisions of other courts of appeals. The practical effect of the court of appeals' decision is to undermine Congress's decision to adopt a "zero tolerance" policy to combat the serious problem of counterfeiting. Further review by this Court is warranted to resolve the conflicts in the lower courts and to preserve the effectiveness of federal anti-counterfeiting statutes.

I. The Tenth Circuit's Opinion Conflicts With Decisions Of Other Circuits On Important Questions Of Trademark Law.

"In order to succeed on the merits of a trademark infringement claim, [plaintiff] must show that the [defendant] used the mark in commerce without its consent and 'that the unauthorized use was likely to deceive, cause confusion, or result in mistake.'" *Int'l Cosmetics Exch., Inc.* v. *Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1248 (11th Cir. 2002). When a defendant sells counterfeit goods, "[t]here can be no dispute that the parties' concurrent use of the [mark] poses a substantial likelihood of confusion among consumers." *Id.* at 1248-49.

A retailer is strictly liable for selling counterfeit merchandise. *See Hard Rock Café Licensing Corp.* v.

Concession Servs., Inc., 955 F.2d 1143, 1152 n.6 (7th Cir. 1992) ("Sellers bear strict liability for violations of the Lanham Act."). The plaintiff in a trademark infringement action is not required to show that the defendant intentionally infringed the trademark. *See Davis* v. *Walt Disney Co.*, 430 F.3d 901, 904 (8th Cir. 2005) ("[P]roof of bad intent is not required for success" in a trademark action.); *AutoZone, Inc.* v. *Tandy Corp.*, 373 F.3d 786, 799 (6th Cir. 2004) ("Proving intent is not necessary to demonstrate likelihood of confusion."). The retailer's intent affects the amount of statutory damages, but is not a defense to liability.

The courts of appeals have developed slightly different formulations of the traditional test to determine the propriety of entering a preliminary injunction in a trademark case, but all consider the same essential factors. 5 *McCarthy* § 30.32, at 30-71 to 30-81. The First Circuit's factors are typical. The court considers: "(1) the likelihood of the movant's success on the merits; (2) the anticipated incidence of irreparable harm if the injunction is denied; (3) the balance of relevant equities (*i.e.*, the hardship that will befall the nonmovant if the injunction issues contrasted with the hardship that will befall the movant if the injunction does not issue); and (4) the impact, if any, of the court's action on the public interest." *Borinquen Biscuit Corp.* v. *M.V. Trading Corp.*, 443 F.3d 112, 115 (1st Cir. 2006).

In this case, it is undisputed that Petitioner demonstrated a likelihood of success on the merits by presenting unchallenged evidence that Respondent sold counterfeit Newport cigarettes. Moreover, there is no dispute that the public interest favors an injunction. "[A]s a matter of public policy, trademarks should be protected against infringing uses." *Id.*; *see also Park 'n Fly* v. *Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) ("Congress determined that 'a sound public policy requires that trademarks should receive nationally the

greatest protection that can be given them.'"). The public interest in enjoining further sales of counterfeit goods is particularly strong, given that counterfeiting is "hard core" trademark infringement that has been repeatedly condemned by Congress.

The Tenth Circuit's holdings with respect to the remaining preliminary injunction factors – irreparable harm and the balance of hardships between the parties – conflict with the holdings of other courts of appeals.

A. The Tenth Circuit's Holding That Sale Of Counterfeit Goods Is Not Sufficient To Establish Irreparable Harm Is Contrary To Decisions Of Other Circuits.

1. The court of appeals held that undisputed evidence showing Respondent infringed Petitioner's trademarks by selling counterfeit products did "not necessarily" demonstrate the "certain and great" harm that is a prerequisite to a preliminary injunction in the Tenth Circuit. App., *infra*, 5a. This holding conflicts with decisions of other circuits. As a leading treatise on trademark law has recognized, "trademark infringement damages are by their nature irreparable," and "[t]he majority of courts will find sufficient irreparable injury to grant a preliminary injunction" when defendant's products cause a likelihood of confusion. 5 *McCarthy* § 30:47, at 30-109.

The court of appeals' decision conflicts with the Sixth Circuit's decision in a virtually identical counterfeiting case, *Lorillard Tobacco Co.* v. *Amouri's Grand Foods, Inc.*, 453 F.3d 377 (6th Cir. 2006). In *Grand Foods*, as in this case, Lorillard's representative discovered that a retailer was selling counterfeit Newport cigarettes. As in this case, Lorillard moved for an *ex parte* seizure order under 15 U.S.C. § 1116 and a preliminary injunction. In both this case and *Grand Foods*, the

district court granted the *ex parte* order but subsequently denied Lorillard's request for a preliminary injunction. The Sixth Circuit in *Grand Foods* – unlike the Tenth Circuit in this case – reversed the denial of the preliminary injunction and directed the district court to enter a preliminary injunction against the retailer. *Grand Foods* is virtually identical to this case, and thus exemplifies the conflict between the Tenth Circuit and other courts of appeals.

The Sixth Circuit held in *Grand Foods* that each of the four preliminary injunction factors favored the entry of a preliminary injunction. *First*, the court held that the retailer's sale of counterfeit merchandise established that Lorillard was likely to succeed on the merits.

Second, the Sixth Circuit held that "'irreparable injury' "ordinarily follows when a likelihood of confusion or possible risk to reputation appears from infringement or unfair competition."'" *Id.* at 382, quoting *Circuit City Stores, Inc.* v. *CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999), quoting, in turn, *Wynn Oil Co.* v. *Am. Way Serv. Corp.*, 943 F.2d 595, 608 (6th Cir. 1991)). The harm in a counterfeiting case stems from the trademark owner's "loss of control over the quality of goods that bear its marks." *Id.*, citing *El Greco Leather Prods. Co.* v. *Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986). Accordingly, the court held that where "[g]oods are being offered for sale that purport, via their use of Lorillard's marks, to have been produced by Lorillard, but that were not," the irreparable harm element is established. *Id.*

Third, the Sixth Circuit held that Grand Foods had not established that it would be harmed by the entry of a preliminary injunction. The court noted that the "harm" visited upon Grand Foods "is hardly a legally cognizable one," since the preliminary injunction simply

prohibited it from selling counterfeit goods, which is "an illegal act to begin with." *Id.*[15]

Fourth, the Sixth Circuit held that the public interest "points strongly in favor of granting injunctive relief" because an injunction "would advance two fundamental purposes of trademark law: preventing consumer confusion and deception in the marketplace and protecting the trademark owner's property interest in the mark." *Id.* at 383.

Like the Sixth Circuit in *Grand Foods* – and contrary to the Tenth Circuit's opinion here – the Eleventh Circuit has held that a trademark owner is entitled to a preliminary injunction where the defendant has sold counterfeit merchandise. In *International Cosmetics Exchange, Inc.* v. *Gapardis Health & Beauty, Inc.*, 303 F.3d 1242 (11th Cir. 2002), the court affirmed the district court's holding that where the evidence shows a party was selling counterfeit merchandise, "'the threatened injury to [the trademark owner] outweighs any harm to [the opposing party] in preventing it from selling product supplied by third parties." *Id.* at 1249.

As in *Grand Foods*, the court of appeals held that "there can be no dispute" that a concurrent counterfeit use of a registered mark poses "a substantial likelihood of confusion among consumers," and that the plaintiff "demonstrated a substantial threat of irreparable injury if injunctive relief was not granted." *Id.* at 1248-49; *see also Levi Strauss & Co.* v. *Sunrise Int'l Trading*, 51 F.3d 982, 986 (11th Cir. 1995) ("There is no doubt that the

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[15] The Sixth Circuit specifically rejected the argument that Grand Foods would be harmed as a result of the difficulty of distinguishing counterfeit merchandise from genuine merchandise. That aspect of the Sixth Circuit's decision, which creates an additional conflict with the Tenth Circuit's decision in this case, is discussed in Part I.B., *infra*.

continued sale of . . . counterfeit jeans would damage [plaintiff's] business reputation and decrease its legitimate sales. This court has previously stated that such trademark infringement 'by its nature causes irreparable harm.'" quoting *Tally-Ho, Inc.* v. *Coast Community College District*, 889 F.2d 1018, 1029 (11th Cir. 1989)).

The decisions of the Sixth and Eleventh Circuits in *Grand Foods* and *Levi Strauss* are in accord with decisions of six other circuits holding that that the damage inflicted on a trademark owner from infringement is by its nature irreparable, and sufficient to establish the irreparable harm element of the preliminary injunction test.[16] Under the law in a majority of the

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[16] *E.g.*, *Kos Pharmaceuticals, Inc.* v. *Andrx Corp.*, 369 F.3d 700, 726 (3d Cir. 2004) ("[L]ack of control over one's mark 'creates the potential for damage to . . . reputation[, which] constitutes irreparable injury for the purpose of granting a preliminary injunction in a trademark case.'" (alterations in original), quoting *Opticians Ass'n of Am.* v. *Indep. Opticians of Am.*, 920 F.2d 187, 196 (3d Cir. 1990)); *Brennan's Inc.* v. *Brennan's Restaurant, L.L.C.*, 360 F.3d 125, 129 (2d Cir. 2004) ("In a trademark infringement case, proof of a likelihood of confusion establishes both a likelihood of success on the merits and irreparable harm."); *Ty, Inc.* v. *The Jones Group, Inc.*, 237 F.3d 891, 902 (7th Cir. 2001) ("[D]amages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law." (citation omitted)); *Societe des Produits Nestle, S.A.* v. *Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992) ("[I]rreparable harm flows from an unlawful trademark infringement as a matter of law."); *see also, e.g.*, *GoTo.com, Inc.* v. *Walt Disney Co.*, 202 F.3d 1199, 1205 n.4 (9th Cir. 2000) ("In a trademark infringement claim, 'irreparable injury may be presumed from a showing of likelihood of success on the merits.'"), quoting *Brookfield Commc'ns, Inc.* v. *West Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999); *General Mills, Inc.* v. *Kellogg Co.*, (...continued)

federal courts of appeals, Respondent's sale of counterfeit goods in violation of Petitioner's trademark demonstrated irreparable harm to Petitioner. This broad agreement among the courts of appeals has been noted both by the courts and by the leading treatise on trademarks. *See, e.g., Ferrellgas Ptnrs., L.P.* v. *Barrow*, 143 Fed. App'x. 180, 191 n.12 (11th Cir. 2005) (collecting cases); 5 *McCarthy* § 30:47, at 30-109. The Tenth Circuit's contrary decision in this case warrants the Court's review to resolve this disagreement in the courts of appeals and to further the important interests safeguarded by the Lanham Act and federal anti-counterfeiting laws at a time when the United States and other countries are being inundated by counterfeit goods.

2. The Tenth Circuit suggested, without deciding, that this Court's decision in *eBay, Inc.* v. *MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006), may be applicable to trademark infringement cases under the Lanham Act, including counterfeiting cases. In *eBay*, this Court rejected a categorical rule that patent owners are entitled to a permanent injunction in all cases of patent infringement. The Court held instead that the traditional four-factor test applied by courts of equity when considering whether to enter a permanent injunction applies to disputes arising under the Patent Act. *Id.* at 1839. The Court's opinion in *eBay* does not discuss trademark infringement under the Lanham Act. Nor does it question the well-established principle that trademark infringement, by its nature, causes irreparable injury to the trademark owner.

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824 F.2d 622, 625 (8th Cir. 1987) ("[A] showing of irreparable injury can be satisfied if it appears that [the trademark owner] can demonstrate a likelihood of consumer confusion.").

Petitioner need not argue in this case that trademark owners are categorically entitled to a preliminary injunction in every case of trademark infringement. When counterfeiting is shown, however, a strong factual predicate necessarily exists for injunctive relief when applying the traditional equitable factors. For example, where counterfeiting has been shown, there is no question of likelihood of success on the merits or likelihood of confusion. Counterfeit products go well beyond confusion; they are intended to deceive.[17] Moreover, the public interest is furthered by preventing counterfeiting because of the harm to consumers and the trademark owner that results when consumers unwittingly purchase counterfeit products. *See supra*, pp. 2-6.

Thus, even assuming for the sake of argument that the Court's decision in *eBay* applies with full force to preliminary injunctions in counterfeiting cases, that decision does not counsel in favor of denying the Petition. There is no dispute that Respondent sold counterfeit goods, and thus that Petitioner is likely to succeed on the merits. The critical issues under the court of appeals' analysis were (i) whether Petitioner made an adequate showing of irreparable harm, and (ii) whether the harm to Petitioner if an injunction is denied outweighs the harm to Respondent if the injunction is granted. Other circuits, including the Sixth and Eleventh Circuits, would have

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[17] Unlike patent litigation, trademark infringement (especially through counterfeiting) involves confusion and outright deception of consumers, not injunctions sought "simply for undue leverage in negotiations" and litigation "primarily for licensing fees." *eBay*, 126 S.Ct. at 1842 (Kennedy, J., concurring). Accordingly, the concern that "past practice" may not "fit[] the circumstance of the cases before [the district courts]" does not arise in the counterfeiting context in the same way as in the patent context. *Id.* at 1842-43.

directed that a preliminary injunction be entered against the retailer in these circumstances. Furthermore, as discussed in Parts I.B-I.D *infra*, the Tenth Circuit considered several factors that other courts of appeals have *rejected* under the traditional four-factor test. The court of appeals' decision to the contrary thus conflicts with decisions of other circuits, and warrants further review.

B. The Tenth Circuit Weighed Respondent's Potential Harm From Proceeding In Light Of A Known Risk In The Balance Of Hardships, Contrary To The Holdings Of Other Circuits.

In weighing the balance of hardships, the court of appeals rejected Petitioner's argument that Respondent would not be harmed by an injunction that simply directed Respondent not to break the law. App., *infra*, 6a. Instead, the court accepted Respondent's arguments that "the counterfeit packages are so similar to genuine packages that an injunction would probably require it to stop selling *any* Newport cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction." *Id.*

The court of appeals' holding conflicts with other circuits that have held that the cost to a defendant of complying with an injunction should not be considered if the defendant proceeded with its activity in light of a known risk of infringement. In *Grand Foods*, the Sixth Circuit held that the harm to the defendant from complying with a preliminary injunction against further sales of counterfeit cigarettes "is hardly a legally cognizable one." 453 F.3d at 382. The court explained that "the law favors the innocent producer of legitimate goods over a party that may be an innocent marketer of counterfeit goods." *Id.* As the Sixth Circuit pointed out, the marketing of counterfeit goods – even if unintentional – is unlawful activity *Id.*

The Sixth Circuit's position is supported by the Seventh Circuit, which has held that where the defendant "proceeded at its own risk [it] cannot now be heard to complain that it will be severely injured if the preliminary injunction is upheld." *Helene Curtis Indus., Inc.* v. *Church & Dwight Co.*, 560 F.2d 1325, 1334 (7th Cir. 1977). In addition, the Third Circuit has held that "a party 'can hardly claim to be harmed [where] it brought any and all difficulties occasioned by the issuance of an injunction upon itself.'" *Kos Pharms., Inc.* v. *Andrx Corp.*, 369 F.3d 700, 728 (3d Cir. 2004) (alteration in original), quoting *Opticians Ass'n of Am.* v. *Indep. Opticians of Am.*, 920 F.2d 187, 197 (3d Cir. 1990).

Here, Respondent engaged in unlawful activity by selling counterfeit goods. Moreover, Respondent purchased the counterfeit goods from an "unknown source." App., *infra*, 2a. By purchasing a highly-regulated product outside the ordinary channels, Respondent assumed the risk of liability not only for selling counterfeit products, but also for selling cigarettes that may not have complied with applicable state and federal laws.[18] Respondent chose to purchase cigarettes from an "unknown source" and now bears the consequences of having taken that risk. Three circuits would have held, contrary to the court of appeals' decision

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[18] Colorado requires all cigarette wholesalers to be licensed, and requires retailers that purchase cigarettes from a licensed wholesaler to provide identifying information to the wholesaler each year. Colo. Rev. Stat. § 39-28-102. It is unlawful for a wholesaler to sell cigarettes without a license or without the required tax stamp; retailers may be liable for aiding and abetting such sales. Colo. Rev. Stat. §§ 30-28-114; 18-1-603. Colorado also imposes criminal liability for any sale or offer for sale of cigarettes that does not comply with federal tax, trademark, copyright, and labeling laws. Colo. Rev. Stat. § 39-28-104.5(2).

here, that Respondent brought on himself the cost of complying with an injunction against further sales of counterfeit goods, and that those costs are not proper to weigh in the balance of harms relevant to a preliminary injunction.

C. The Tenth Circuit Weighed Respondent's Monetary Harm Against The Potential Harm From Trademark Infringement, Contrary To Other Circuits.

In considering the balance of hardships in this case, the Tenth Circuit weighed the potential harm that Petitioner would suffer if a preliminary injunction were denied against the potential harm to Respondent if an injunction were granted. The sole harm to Respondent that the court identified was that "an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction." App., *infra*, 6a.[19] Potential monetary harm, such as harm from lost sales, is not a form of "irreparable harm." The court of appeals' contrary holding conflicts with two other courts of appeals on the balance of harms factor and is in sharp tension with the holding of a third court.

As the Third Circuit has explained: "The question is whether, and to what extent, the defendants will suffer *irreparable harm* if the preliminary injunction is issued. . . . Irreparable harm must be of a peculiar nature, so that compensation in money alone cannot atone for it." *Kos Pharmaceuticals*, 369 F.3d at 727 (quotations and

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[19] The court considered other factors in the balance — the size of Respondent's business, the quantity of counterfeit goods, the number of times Respondent sold counterfeit goods, and the difficulty of distinguishing them — but those factors do not imply any harm to Respondent from an injunction.

alterations omitted, emphasis added). Costs that "are compensable by money damages . . . do not constitute irreparable harm as a matter of law." *Id.* at 728. *See also S & R Corp.* v. *Jiffy Lube Int'l, Inc.*, 968 F.2d 371, 374 (3d Cir. 1992) (court considers "the extent to which the defendants will suffer *irreparable* harm if the preliminary injunction is issued." (emphases added).

The Seventh Circuit likewise considers only "the *irreparable harm* the non-moving party will suffer if the injunction is granted balanced against the *irreparable harm* the moving party will suffer if the injunction is denied." *Aircraft Owners & Pilots Ass'n* v. *Hinson*, 102 F.3d 1421, 1425 (7th Cir. 1996) (emphasis added); *see also Promatek Indus., LTD* v. *Equitrac Corp.*, 300 F.3d 808, 813 (7th Cir. 2002) ("The final factor we must consider is the balance of harms—the irreparable harm [defendant] will suffer if the injunction is enforced weighed against the irreparable harm [plaintiff] will suffer if it is not.").

The Tenth Circuit's opinion is also in sharp tension with the Second Circuit's opinion in *Warner-Lambert Co.* v. *Northside Development Corp.*, 86 F.3d 3 (2d Cir. 1996). The court there stated that the "decisive issue" in the case was "the standards for injunctive relief," and found that "the balance of hardships clearly favor[ed]" the plaintiff where the plaintiff showed irreparable harm and the defendant claimed only monetary harm. *Id.* at 8. The court found that plaintiff would suffer a "loss of consumer goodwill" from defendant's sale of plaintiff's cough drops that did not meet its freshness standards and that the loss would "be unquantifiable at trial" and "not accurately compensable by monetary damages." *Id.* The court thus found that the plaintiff's harm was "irreparable," while the "only harm to [defendant] from the full preliminary injunction is the loss of profits on sales." *Id.* The court

reversed the district court and ordered the entry of a preliminary injunction. *Id.*[20]

The Tenth Circuit, in the instant case, departed from decisions of other circuits by weighing the retailer's monetary harm from lost sales against the trademark owner's irreparable harm from sales of counterfeit goods.

D. The Tenth Circuit Weighed The Size Of Defendant's Business And The Difficulty Of Detecting Counterfeits, Factors That Other Circuits Have Held Are Irrelevant.

In addition to the conflicts noted above, the court of appeals' decision in this case relies on factors that other courts of appeals have rejected.

1. The sole basis the Tenth Circuit offered for distinguishing this case from the Sixth Circuit's decision in *Grand Foods* is that the *ex parte* seizure order in *Grand Foods*, unlike the seizure order in this case, resulted in the seizure of four additional packages of counterfeit cigarettes. App., *infra*, 5a. This is a wholly unpersuasive basis for distinguishing the two cases.

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[20] In *MicroStrategy, Inc.* v. *Motorola, Inc.*, 245 F.3d 335, 339-40 & n.3 (4th Cir. 2001), the Fourth Circuit's balance of harms analysis considered a defendant's alleged $24 million investment in a disputed mark. The court held that there was no "decided imbalance of hardship" because both parties alleged irreparable harm, but the defendant may have demonstrated "that it will suffer more from a grant of an injunction than [plaintiff] will from its denial," based on its investment in the mark. *Id.* In a dissenting opinion, Judge Niemeyer argued that the majority "gives too much weight to [defendant's] professed hardships." *Id.* at 344. Judge Niemeyer stated that in a trademark infringement case, the defendant's expenditures to develop the disputed mark are "irrelevant" and that the majority's consideration of these costs was "glaring" error. *Id.* at 345.

There is no suggestion in the Sixth Circuit's opinion that its decision turned on the discovery of additional counterfeit goods during the execution of the seizure order. To the contrary, the court explained that both likelihood of success on the merits and irreparable injury were established by evidence that the retailer sold counterfeit goods – not that the retailer sold the counterfeits goods on more than one occasion. *Grand Foods*, like this case, involved a relatively small quantity of counterfeit goods (eight packages versus two in this case), but the Sixth Circuit nevertheless directed the district court to enter a preliminary injunction.

The court of appeals also allowed the district court to consider the relatively small size of Respondent's business as a factor supporting the denial of a preliminary injunction, on the theory that granting injunctive relief would cause more harm to Respondent than denying it would cause to Petitioner. Other courts have reached the opposite conclusion. Judge Posner, writing for the Seventh Circuit in *Louis Vuitton, S.A.* v. *Lee*, concluded that the size of the retailer is not a reason to deny monetary relief, let alone an injunction:

> Most of the infringing sellers are small retailers .... Obtaining an injunction against each and every one of them would be infeasible. Trademark owners cannot hire investigators to shop every retail store in the nation. And even if they could and did, and obtained injunctions against all present violators, this would not stop the counterfeiting. Other infringers would spring up, and would continue infringing until enjoined. ... [T]he violator will know that he won't be caught every time, and merely confiscating his profits in cases in which he is caught will leave him with a net profit

> from infringement. From this we can see that the disparity in size between the typical owner of a trademark on fashionable goods and the typical seller of counterfeits of those trademarked goods is not reason to deny monetary relief to the former; for the smaller the violator, the less likely he is to be caught, and the more needful therefore a heavy punishment if he is caught. The fact that palming off counterfeit goods is not a substantial part of [the retailer's] business is not, as the district court believed, an extenuating circumstance.

875 F.2d 584, 588 (7th Cir. 1989). *See also Microsoft Corp.* v. *CMOS Techs.*, 872 F. Supp. 1329, 1340-41 (D.N.J. 1994) ("The fact that defendants are smaller retailers does not create an 'extenuating circumstance' . . . Equity is not a roving commission to redistribute wealth from large companies to small ones. The Lanham Act was not written by Robin Hood.").[21]

The Seventh Circuit's decision in *Louis Vuitton* assumed that the trademark owner could obtain an injunction against a small retailer, but the Tenth Circuit's decision allows district courts to consider the size of the retailer as a basis for denying a preliminary injunction. The Tenth Circuit's decision is incorrect, for the same reasons that a decision not to require small retailers to pay monetary damages would be incorrect. Because

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[21] In contrast to the Seventh Circuit, the Ninth Circuit has held that "[i]n evaluating the balance of hardships a court must consider the impact granting or denying a preliminary injunction will have on the respective enterprises. Thus the relative size and strength of each enterprise may be pertinent to this inquiry." *Int'l Jensen, Inc.* v. *Metrosound U.S.A.*, Inc., 4 F.3d 819, 827 (9th Cir. 1993).

manufacturers of counterfeit goods operate in a clandestine manner, trademark owners typically have no way to combat counterfeiting other than to identify counterfeit goods sold by retailers – which frequently are small businesses. If the size of the retailers' business is a reason to deny an injunction, trademark owners' ability to combat counterfeiting will be substantially undermined. The practical effect of the Tenth Circuit's ruling is to create a safe haven for counterfeiting among small retailers, and to undermine Congress's "zero-tolerance" policy for counterfeit goods.

II. The Questions Presented Are Important And Recurring, And This Case Presents A Good Vehicle To Decide Them.

The Tenth Circuit's decision in this case conflicts with decisions of other courts of appeals on several important questions of trademark law. The varying standards that the courts of appeals apply have resulted in inconsistent application of the federal trademark laws. This Court's intervention is needed to restore the uniformity of federal law.

Given the insidious nature of the counterfeiting problem, and Congress's repeated efforts to combat the problem through legislation, there can be no doubt that the questions presented are important. The growing prevalence of counterfeiting in terms of volume and dollar value of counterfeit goods, *see supra*, pp. 2-5, demonstrates that the questions will recur, as is shown by the diametrically opposite results that the courts of appeals reached in the instant case and *Grand Foods*.

This case provides a good vehicle to decide the questions presented. The relevant facts are clear and undisputed, and the basis of the court of appeals' decision is straightforward.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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April, 2007

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

No. 06-1115

(D.C. No. 06-cv-225-LTB) (D. Colo.)

January 8, 2007, Filed

LORILLARD TOBACCO COMPANY, a Delaware corporation,

Plaintiff-Appellant,

v.

ISAAC G. ENGIDA, doing business as I and G Liquors,

Defendant-Appellee.

ORDER AND JUDGMENT*

Before **HOLMES**, **McKAY**, and **BRORBY**, Circuit Judges.

Representatives of Lorillard Tobacco Company, the manufacturer of Newport® cigarettes, acquired two

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* After examining the briefs and appellate record, this panel has determined unanimously that oral argument would not materially assist the determination of this appeal. *See* Fed. R. App. P. 34(a)(2); 10th Cir. R. 34.1(G). The case is therefore ordered submitted without oral argument. This order and judgment is not binding precedent, except under the doctrines of law of the case, res judicata, and collateral estoppel. It may be cited, however, for its persuasive value consistent with Fed. R. App. P. 32.1 and 10th Cir. R. 32.1.

packages of counterfeit Newport® cigarettes from I and G Liquors, defendant Isaac G. Engida's business. Lorillard filed a complaint against I and G for violations of the Lanham Act, 15 U.S.C. §§ 1114 and 1125, and sought an ex parte seizure order and a temporary restraining order (TRO). The district court granted Lorillard's requests. Upon executing the seizure order, however, Lorillard's representatives found no Newport® cigarettes, either genuine or counterfeit, on I and G's premises. In addition to about twenty packages of non-Lorillard-brand cigarettes, the search did yield some records showing I and G may have purchased some cigarettes from an unknown source. At a hearing on February 24, 2006, the district court held that Lorillard had not made a sufficient showing for continued injunctive relief and dissolved the TRO. Lorillard appeals.

Jurisdiction

I and G contends that this court does not have jurisdiction because the district court never actually denied Lorillard a preliminary injunction. Instead, I and G argues, the district court only dissolved the TRO it previously had entered. This court may hear an interlocutory appeal of the denial of preliminary injunctive relief, but it generally does not have jurisdiction over an interlocutory appeal of the dissolution of a TRO. *See* 28 U.S.C. § 1292(a)(1); *Office of Pers. Mgmt. v. Am. Fed'n of Gov't Employees*, 473 U.S. 1301, 1303-05 (1985); *Duvall v. Keating*, 162 F.3d 1058, 1062 (10th Cir. 1998). Having reviewed the record, we find that during the February 24 hearing, the district court not only dissolved the TRO, but also denied preliminary injunctive relief. *See* Aplt. App. at 107 (district court stating to Lorillard, "you're asking for a preliminary injunction at this point"); 108 (district court stating, "you want me to continue this extraordinary relief by way of a preliminary injunction"); 109 (district court stating that Lorillard had shown cause why a preliminary injunction should not be

entered); *id.* (district court stating, "I'm not going to place the imprimatur of the federal government and the United States judiciary on a preliminary injunction, and I'm going to dissolve the temporary restraining order."). Whether the district court's comments are construed as an express denial of Lorillard's motion for preliminary injunctive relief or as having the "practical effect" of denying injunctive relief, we find that we have jurisdiction over this interlocutory appeal under 28 U.S.C. § 1292(a)(1). *See Forest Guardians v. Babbitt*, 174 F.3d 1178, 1184-85 (10th Cir. 1999).

Analysis

We review the district court's denial of a preliminary injunction for abuse of discretion. *Davis v. Mineta*, 302 F.3d 1104, 1110-11 (10th Cir. 2002). "A district court abuses its discretion where it commits a legal error or relies on clearly erroneous factual findings, or where there is no rational basis in the evidence for its ruling." *Id.* at 1111 (internal citation omitted). "When reviewing for an abuse of discretion, the district court's decision is overturned only if it is arbitrary, capricious, whimsical, or manifestly unreasonable." *Pac. Frontier v. Pleasant Grove City*, 414 F.3d 1221, 1231 (10th Cir. 2005) (quotation omitted).

Under the Lanham Act, a court may grant an injunction "according to the principles of equity and upon such terms as the court may deem reasonable."

15 U.S.C. § 1116(a). A party seeking injunctive relief must establish four factors:

> (1) it will suffer irreparable harm if the injunction is not granted, (2) its threatened injury outweighs the harm caused to the opposing party as a result of the injunction, (3) the injunction is not adverse to the public interest, and (4) it has a substantial

> likelihood of success on the merits of the case.

Dominion Video Satellite, Inc. v. Echostar Satellite Corp., 356 F.3d 1256, 1260 (10th Cir. 2004). "[B]ecause a preliminary injunction is an extraordinary remedy, the right to relief must be clear and unequivocal." *Id.* at 1261 (quotation omitted).

It appears the district court doubted the strength of Lorillard's case and did not believe that Lorillard showed it would suffer irreparable harm in the absence of an injunction. *See* Aplt. App. at 106 (noting that the origin of one of the cigarette packages was in question, so the dispute came down to perhaps one package of cigarettes); *id.* at 107 (Lorillard's counsel stating his understanding that Mr. Engida indicated he had no intention of selling cigarettes, and the court responding, "[i]f he has no intention of selling cigarettes, why do I need continued injunctive relief?"); *id.* at 108 (court stating, "what you're after, and it was pretty apparent at the outset, is you want to utilize Mr. Engida on the basis of two packages of cigarettes as the bottom of the food chain"); *id.* at 109 ("I need something more substantial than two packages of cigarettes for a TRO – I granted the TRO anticipating that this raid under the auspices of the Marshals Service, United States Marshals Service, would find substantial or at least significant evidence that this man, Mr. Engida, is in violation of the Lanham Act."); *id.* at 112 (court stating, "I think plaintiff's counsel better consider seriously continuing this case. Perhaps you ought to find a better small fish."). It also appears the district court was concerned that the harm a preliminary injunction would cause I and G outweighed any harm to Lorillard in the absence of an injunction. *See id.* at 108 (court stating, "He's a businessman, small business."); *id.* (court stating, "where a marshal under order of this Court virtually conducts a raid on this man's business, and you find nothing, except some questions about a paper trail, and

on this you want me to continue this extraordinary relief . . . ?"); *id.* at 109 (court stating, "[t]he most reasonable inference that I can make, and I don't even really need to hear from Mr. Enigda, is that he happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes. And you want to bring the full force and authority of the United States government and the federal judicial system down on this man's head. I'm not going to do it.").

In light of the record before it, the district court did not abuse its discretion in denying Lorillard preliminary injunctive relief. "In defining the contours of irreparable harm, case law indicates that the injury must be both certain and great, and that it must not be merely serious or substantial." *Dominion Video Satellite*, 356 F.3d at 1262 (quotation omitted). The record does not necessarily establish that Lorillard would suffer certain and great harm in the absence of an injunction. Unlike the Sixth Circuit case on which Lorillard relies, *see Lorillard Tobacco Co. v. Amouri's Grand Foods, Inc.*, 453 F.3d 377, 379 (6th Cir. 2006), the raid on I and G's premises did not reveal any evidence of additional counterfeit Newport® cigarettes, undermining the likelihood of future injury to Lorillard.

Lorillard argues that a prima facie case of trademark infringement establishes irreparable harm, per se. This court has stated, "[i]rreparable injury is frequently presumed where a trademark is wrongfully appropriated by another." *SCFC ILC, Inc. v. Visa USA, Inc.*, 936 F.2d 1096, 1100-01 (10th Cir. 1991), *overruled on other grounds by O Centro Espirita Beneficiente Uniao Do Vegetal v. Ashcroft*, 389 F.3d 973, 975 (10th Cir. 2004) (en banc). In response, I and G contends that the Supreme Court recently disapproved the use of categorical rules in connection with injunctive relief in intellectual property

actions. *See eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006).

Notably, the Sixth Circuit did not discuss *eBay* in awarding relief in *Amouri's Grand Foods*. We need not consider how *eBay* may apply in this context, however, because in any event Lorillard has not shown that any harm Lorillard would suffer in the absence of an injunction outweighed the potential harm to I and G if an injunction were granted. As stated above, the raid did not indicate a substantial likelihood that I and G had or would sell any additional counterfeit Newport® cigarettes. Lorillard argues I and G would not be harmed from being barred from selling counterfeit cigarettes, since doing so is illegal anyway. As I and G points out, however, the counterfeit packages are so similar to genuine packages that an injunction would probably require it to stop selling *any* Newport® cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction. Further, the district court did not clearly err in taking account of I and G's status as a small business. All of these factors indicate that an injunction would weigh much more heavily on I and G than the lack of one would affect Lorillard.

Under the circumstances, the district court's decision to deny preliminary injunctive relief was not arbitrary, capricious, whimsical, or manifestly unreasonable. Thus, the district court did not abuse its discretion, and the judgment of the district court is AFFIRMED.

Entered for the
Court
Wade Brorby
Circuit Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO
LEWIS T. BABCOCK, CHIEF JUDGE

Civil Case No. O6-cv-00225-LTB-OES

LORILLARD TOBACCO COMPANY,
a Delaware Corporation,

Plaintiff,

v.

ISAAC G. ENGIDA d/b/a
I AND G LIQUORS

Defendants.

Order

The Temporary Restraining Order granted on February 10, 2006 is hereby DISSOLVED.

The seal placed on this case February 10, 2006 is LIFTED.

Plaintiff Lorillard Tobacco Company is hereby ordered to show cause why this case should not be dismissed as frivolous, no later than March 6, 2006.

DONE and ORDERED, this 24th day of February, 2006 at Denver, Colorado.

s/Lewis T. Babcock

United States District Chief Judge

UNITED STATES COURT OF APPEALS

FOR THE TENTH CIRCUIT

No. 06-1115

LORILLARD TOBACCO COMPANY, a Delaware corporation,

Plaintiff-Appellant,

v.

ISAAC G. ENGIDA, doing business as I and G Liquors,

Defendant-Appellee.

ORDER

Filed January 25, 2007

Before HOLMES, McKay, and BRORBY, Circuit Judges.

Appellant's petition for rehearing is denied.

Entered for the Court

ELISABETH A. SHUMAKER, Clerk

by:
Deputy Clerk

PROVISIONS OF THE LANHAM ACT
(15 U.S.C. § 1051 *et seq.*)

§ 1114. Remedies; infringement; innocent infringement by printers and publishers

(1) Any person who shall, without the consent of the registrant--

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

* * *

§ 1116. Injunctive relief

(a) Jurisdiction; service. The several courts vested with jurisdiction of civil actions arising under this Act shall have power to grant injunctions, according to the principles of equity and upon such terms as the court

may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 43. Any such injunction may include a provision directing the defendant to file with the court and serve on the plaintiff within thirty days after the service on the defendant of such injunction, or such extended period as the court may direct, a report in writing under oath setting forth in detail the manner and form in which the defendant has complied with the injunction. Any such injunction granted upon hearing, after notice to the defendant, by any district court of the United States, may be served on the parties against whom such injunction is granted anywhere in the United States where they may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose jurisdiction the defendant may be found.

(b) Transfer of certified copies of court papers. The said courts shall have jurisdiction to enforce said injunction, as herein provided, as fully as if the injunction had been granted by the district court in which it is sought to be enforced. The clerk of the court or judge granting the injunction shall, when required to do so by the court before which application to enforce said injunction is made, transfer without delay to said court a certified copy of all papers on file in his office upon which said injunction was granted.

(c) Notice to Director. It shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding involving a mark registered under the provisions of this Act to give notice thereof in writing to the Director setting forth in order so far as known the names and addresses of the litigants

and the designating number or numbers of the registration or registrations upon which the action, suit, or proceeding has been brought, and in the event any other registration be subsequently included in the action, suit, or proceeding by amendment, answer, or other pleading, the clerk shall give like notice thereof to the Director, and within one month after the judgment is entered or an appeal is taken the clerk of the court shall give notice thereof to the Director, and it shall be the duty of the Director on receipt of such notice forthwith to endorse the same upon the file wrapper of the said registration or registrations and to incorporate the same as a part of the contents of said file wrapper.

(d) Civil actions arising out of use of counterfeit marks.

(1) (A) In the case of a civil action arising under section 32(1)(a) of this Act (15 U.S.C. 1114) or section 220506 of title 36, United States Code, with respect to a violation that consists of using a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court may, upon ex parte application, grant an order under subsection (a) of this section pursuant to this subsection providing for the seizure of goods and counterfeit marks involved in such violation and the means of making such marks, and records documenting the manufacturer, sale, or receipt of things involved in such violation.

(B) As used in this subsection the term "counterfeit mark" means--

(i) a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or

(ii) a spurious designation that is identical with, or substantially indistinguishable from, a designation as to which the remedies of this Act are made available by reason of section 220506 of title 36, United States Code;

but such term does not include any mark or designation used on or in connection with goods or services of which the manufacture or producer was, at the time of the manufacture or production in question authorized to use the mark or designation for the type of goods or services so manufactured or produced, by the holder of the right to use such mark or designation.

(2) The court shall not receive an application under this subsection unless the applicant has given such notice of the application as is reasonable under the circumstances to the United States attorney for the judicial district in which such order is sought. Such attorney may participate in the proceedings arising under such application if such proceedings may affect evidence of an offense against the United States. The court may deny such application if the court determines that the public interest in a potential prosecution so requires.

(3) The application for an order under this subsection shall--

(A) be based on an affidavit or the verified complaint establishing facts sufficient to support the findings of fact and conclusions of law required for such order; and

(B) contain the additional information required by paragraph (5) of this subsection to be set forth in such order.

(4) The court shall not grant such an application unless-

(A) the person obtaining an order under this subsection provides the security determined adequate by the court for the payment of such damages as any person may be entitled to recover as a result of a wrongful seizure or wrongful attempted seizure under this subsection; and

(B) the court finds that it clearly appears from specific facts that--

(i) an order other than an ex parte seizure order is not adequate to achieve the purposes of section 32 of this Act (15 U.S.C. 1114);

(ii) the applicant has not publicized the requested seizure;

(iii) the applicant is likely to succeed in showing that the person against whom seizure would be ordered used a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services;

(iv) an immediate and irreparable injury will occur if such seizure is not ordered;

(v) the matter to be seized will be located at the place identified in the application;

(vi) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application; and

(vii) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person.

(5) An order under this subsection shall set forth--

(A) the findings of fact and conclusions of law required for the order;

(B) a particular description of the matter to be seized, and a description of each place at which such matter is to be seized;

(C) the time period, which shall end not later than seven days after the date on which such order is issued, during which the seizure is to be made;

(D) the amount of security required to be provided under this subsection; and

(E) a date for the hearing required under paragraph (10) of this subsection.

(6) The court shall take appropriate action to protect the person against whom an order under this subsection is directed from publicity, by or at the behest of the plaintiff, about such order and any seizure under such order.

(7) Any materials seized under this subsection shall be taken into the custody of the court. The court shall enter an appropriate protective order with respect to discovery by the applicant of any records that have been seized. The protective order shall provide for appropriate procedures to assure that confidential information contained in such records is not improperly disclosed to the applicant.

(8) An order under this subsection, together with the supporting documents, shall be sealed until the person against whom the order is directed has an opportunity to contest such order, except that any person against whom such order is issued shall have access to such order and supporting documents after the seizure has been carried out.

(9) The court shall order that service of a copy of the order under this subsection shall be made by a Federal law enforcement officer (such as a United States marshal or an officer or agent of the United States Customs Service, Secret Service, Federal

Bureau of Investigation, or Post Office) or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order. The court shall issue orders, when appropriate, to protect the defendant from undue damage from the disclosure of trade secrets or other confidential information during the course of the seizure, including, when appropriate, orders restricting the access of the applicant (or any agent or employee of the applicant) to such secrets or information.

(10) (A) The court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure. That date shall be not sooner than ten days after the order is issued and not later than fifteen days after the order is issued, unless the applicant for the order shows good cause for another date or unless the party against whom such order is directed consents to another date for such hearing. At such hearing the party obtaining the order shall have the burden to prove that the facts supporting findings of fact and conclusions of law necessary to support such order are still in effect. If that party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

(B) In connection with a hearing under this paragraph, the court may make such orders modifying the time limits for discovery under the Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of such hearing.

(11) A person who suffers damage by reason of a wrongful seizure under this subsection has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to recover such relief as may be appropriate, including damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the

seizure was sought in bad faith, and, unless the court finds extenuating circumstances, to recover a reasonable attorney's fee. The court in its discretion may award prejudgment interest on relief recovered under this paragraph, at an annual interest rate established under section 6621(a)(2) of the Internal Revenue Code of 1986, commencing on the date of service of the claimant's pleading setting forth the claim under this paragraph and ending on the date such recovery is granted, or for such shorter time as the court deems appropriate.

§ 1117. Recovery for violation of rights

(a) Profits; damages and costs; attorney fees

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125 (a) or (d) of this title, or a willful violation under section 1125 (c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover

(1) defendant's profits,

(2) any damages sustained by the plaintiff, and

(3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the

court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(b) Treble damages for use of counterfeit mark

In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114 (1)(a) of this title or section 220506 of title 36 that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116 (d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621 (a)(2) of title 26, commencing on the date of the service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

(c) Statutory damages for use of counterfeit marks

In a case involving the use of a counterfeit mark (as defined in section 1116 (d) of this title) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale,

offering for sale, or distribution of goods or services in the amount of—

(1) not less than $500 or more than $100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or

(2) if the court finds that the use of the counterfeit mark was willful, not more than $1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

(d) Statutory damages for violation of section 1125 (d)(1)

In a case involving a violation of section 1125 (d)(1) of this title, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits, an award of statutory damages in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just.

§ 1125. False designations of origin, false descriptions, and dilution forbidden

(a) Civil action.

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

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